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Gainsharing Your Way to Productivity Gains in Distribution

Setting up a Simple Gainsharing Approach will Lead to Huge Increases in Productivity

SCDigest Editorial Staff

In a period where (as usual) most companies are looking for any avenue they can find to reduce logistics cost, is a basic gainsharing program with distribution center associates a smart move to make?

SCDigest has received many calls of late with questions about areas to reduce supply chain and logistics costs. That reminded us of the excellent book titled ***Warehouse Productivity***, written a few years ago by consultant **Ron Hounsell** of the [Labor Development Group]() and **Pat Kelly,** Director of Logistics for the True Value Company.

The appeal of the suggested approach: substantial DC productivity gains with little capital investment.

Understanding Hourly Employees

One of the best features of the book itself is that it talks with complete frankness about how hourly laborers in the DC or manufacturing think and feel.

Kelly and Hounsell note, for example, that while for most executives the time available each day seems to slip by much faster than they wish, it is much different for most blue collar employees.

When they hear the bell that starts the shift, it "starts the first round in the fight between the worker and time. The immediate challenge, after this bell rings, is how to get to the next bell which announces the morning break," they write. "Where the executive has this odd love affair with time…the blue collar worker battles it, and develops hundreds of strategies – some quite bizarre – on how to get through the day."

Kelly and Hounsell argue that most traditional corporate gainsharing programs are too complex for both management and employees to work effectively in logistics. So they argue for a very simplified model that they say is easy for DC employees to understand.

Many of those strategies result in lost labor efficiency.

There are exceptions in almost every workforce. Virtually every facility will have a small group of "banshees," or the operators who pick, pack or ship well above the average employee. But these same operations are likely to have about an equal number of "zombies" – employees who work well below average. Most, of course, are somewhere in the middle. But even the banshees generally produce less than they could because there are few rewards for doing so.

Gainsharing Made Simple

Kelly and Hounsell say that the easiest and most effective way to turn this situation around is to implement a gainsharing program with DC operators.

Gainsharing in general refers to any program where improvements in some operational area (profits, costs, etc.) are shared between the company that achieves the results and some other

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		Example DC Gainshaing Structure								
	Above Base Rate	10%	$0.25	$0.25	$0.25	$0.25	$0.25	$0.25	$0.25	$0.25
	Gainshare Payout Per Hour	$0.25	$0.50	$0.75	$1.00	$1.25	$1.50	$1.75	$2.00	$2.25
Zone	Bare Rate									
1	130	143	150	156	163	169	176	182	189	195
2	120	132	138	144	150	156	162	168	174	180
3	115	127	133	138	144	150	156	161	167	173

party, such as a consultant or, in this case, shop floor employees.

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Naturally, some metric needs to be selected for each worker or area of the DC. While more formal engineered standards can be used, and are likely to be most effective, more traditional DC metrics such as lines or case per hour can also be used.

The fundamental point is that by offering DC employees and incentive to improve productivity on the chosen metric in a way that benefits both the company and the employee, substantial productivity gains are possible.

In general, a plan that lets the company keep two-thirds of the savings from productivity gains and employees one-third should work out well for both sides, Kelly and Hounsell argue.

But the program can be staggered to get there.

After a baseline rate is set (whether though historic analysis, engineered standards, or other approach), it is fairly easily to develop a "sliding scale" of increments to the employee's base hourly wage based on their individual performance. Actually what Kelly and Hounsell propose is almost a reverse sliding scale – employee incentives actually accelerate as higher and higher levels of productivity are achieved.

The table above, taken from the book, offers one example of how such as gainsharing program could be structured.

A few points are key. First, in this example, the company keeps a greater percent of the productivity savings at lower levels, and the employees relatively more as rates above the base level increase, eventually reaching something close to the ideal two-thirds/one-third ratio.

Second, the next level or step must be hit for the payout to given. Any gains that fall between steps are totally to the company's benefit.

Third, there are no limits.

"Tell your employees you encourage them to double their productivity, because the sky is the limit to the bonuses you want to pay out," Kelly and Hounsell say (within the confines of acceptable quality and safety.

Of course, that "sky is the limit" approach is likely to send corporate accountants into a fit, worried about giving away "free money." Kelly and Hounsell offer recommendations on handling that and a number of other issues, which we will summarize next week.
Overall, such a program provides "an unstoppable impetus to create significantly increased profits" the authors say.

That sounds pretty good in these times.